



COMMONWEALTH of VIRGINIA

Philip A. Leone
Director

Joint Legislative Audit and Review Commission
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September 19, 2000

MEMORANDUM

TO: Philip A. Leone

FROM: Glen S. Tittermary

SUBJECT: Approval of DIT Rates

On August 30, 2000, the Department of Information Technology (DIT) requested the Commission's approval of rate changes for various billing elements in the Computer Services Fund. Specifically, DIT is requesting a reduction in rates for seven Computer Services billing elements, reduction of the local service surcharge, revision of the dedicated router port billing element, and an increase in the factor for the DIT-leased equipment billing element.

Effective July 1, 2000, DIT reduced the billings to customer agencies for seven Computer Services billing elements. These reductions were necessary in order for DIT to avoid collection of excess revenues. The increase in revenues was the result of increased use of the mainframe computers by customer agencies. As the number of units of service increase, DIT must reduce the unit rates in order to hold its revenue constant. DIT is now requesting formal approval of the lower rates for IBM CPU Service (-10.9%), IBM Tape Service (-18.4%), IBM Disk Storage (-23.8%), Unisys Tape Service (-17.1%), Unisys Tape Storage (-11.0%), Unisys Disk Storage (-21.1%), and Unisys Transaction Handling (-20.9%). Since these reductions are in response to increased customer usage, there are no direct savings for customers. However, DIT projects that it will avoid about \$4.0 million in excess revenues due to the rate reductions.

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Effective with the September billings, DIT reduced the surcharge for local telephone service from 13.3 percent to 9.2 percent. This 30.8 percent reduction in the rate reflects favorable changes to the contract that DIT has recently negotiated with Verizon. DIT expects the lower surcharge to save agencies about \$700,000 per year.

DIT has also requested Commission approval for modification of the dedicated router port charge. The current billing element is for low-speed router access, which was all that DIT provided when the router charge was approved. As a result of upgraded technology, DIT now offers high-speed access and used switches to permit more router ports. As a result, the low-speed access rate needs to be reduced by 88.3 percent, from \$837 per month to \$97.75 per month. In addition, a new rate needs to be established for the high-speed access ports. DIT has determined the cost for this service to be \$977.50 per month. These changes will increase total charges to all agencies about \$4,000 per month, or about \$48,000 annually.

Finally, DIT is requesting a shorter breakeven point for equipment purchased for customers. A 36 month breakeven point would ensure that DIT fully recovers the cost of equipment in the rapidly changing technology environment. This would require a slight increase in the factor (times the vendor purchase price) for recovering the cost of leased equipment from .026 to .028, an increase of about 7.7 percent.

I have reviewed the DIT request and its impact on customer agencies and DIT's fund balances. Because the reductions and other modifications are in response to increased customer use, there will be no impact on fund balances. Customers statewide can expect to save about \$700,000 from the local telecommunications service reduction. Therefore, I recommend that the Commission approve the rates as requested by DIT.

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